

Report on the

J. F. Drake State Community and Technical College

Huntsville, Alabama

October 1, 2019 through September 30, 2020

Filed: July 30, 2021



Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner



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Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

An audit was conducted on J. F. Drake State Community and Technical College, Huntsville, Alabama, for the period October 1, 2019 through September 30, 2020, by Examiners Mistie Beam, Tom Tolley, and Madison McGuire. I, Mistie M. Beam served as Examiner-in-Charge on the engagement, and under the authority of the ***Code of Alabama 1975***, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the audit.

Respectfully submitted,

Mistie M. Beam
Examiner of Public Accounts

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Table of Contents

	<i>Page</i>
Summary	A
Contains items pertaining to state and federal legal compliance, College operations and other matters.	
Comments	C
Contains information pertaining to College operations, compliance and other matters.	
Independent Auditor's Report	E
Reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations in accordance with generally accepted accounting principles (GAAP).	
Management's Discussion and Analysis	I
Provides information required by the Governmental Accounting Standards Board (GASB) that is prepared by management of the College introducing the basic financial statements and providing an analytical overview of the College's financial activities for the year. This information has not been audited, and no opinion is provided about the information.	
<u>Basic Financial Statements</u>	1
Provides the minimum combination of financial statements and notes to the financial statements that is required for the fair presentation of the College's financial position and results of operations in accordance with GAAP.	
J. F. Drake State Community and Technical College	
Exhibit #1 Statement of Net Position	2
Exhibit #2 Statement of Revenues, Expenses and Changes in Net Position	4
Exhibit #3 Statement of Cash Flows	5
Notes to the Financial Statements	7

Table of Contents

	<i>Page</i>
<u>Required Supplementary Information</u>	32
Provides information required by the Governmental Accounting Standards Board (GASB) to supplement the basic financial statements. This information has not been audited and no opinion is provided about the information.	
Exhibit #4 Schedule of the College's Proportionate Share of the Collective Net Pension Liability	33
Exhibit #5 Schedule of the College's Contributions – Pension	34
Exhibit #6 Schedule of the College's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability Alabama Retired Education Employees' Health Care Trust	35
Exhibit #7 Schedule of the College's Contributions – Other Postemployment Benefits (OPEB) Alabama Retired Education Employees' Health Care Trust	36
Notes to Required Supplementary Information for Other Postemployment Benefits (OPEB)	37
<u>Supplementary Information</u>	39
Contains financial information and notes relative to federal financial assistance.	
Exhibit #8 Schedule of Expenditures of Federal Awards	40
Notes to the Schedule of Expenditures of Federal Awards	42
<u>Additional Information</u>	43
Provides basic information related to the College, including reports and items required by generally accepted government auditing standards and/or Title 2 U. S. <i>Code of Federal Regulations</i> Part 200, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> (Uniform Guidance) for federal compliance audits.	
Exhibit #9 College Officials – a listing of the College officials.	44

Table of Contents

Page

Exhibit #10	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> – a report on internal controls related to the financial statements and on whether the College complied with laws and regulations which could have a direct and material effect on the College’s financial statements.	45
Exhibit #11	Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the <i>Uniform Guidance</i> – a report on internal controls over compliance with requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to major federal programs and an opinion on whether the College complied with federal statutes, regulations, and the terms and conditions of its federal awards which could have a direct and material effect on each major program.	47
Exhibit #12	Schedule of Findings and Questioned Costs – a schedule summarizing the results of audit findings relating to the financial statements as required by <i>Government Auditing Standards</i> and findings and questioned costs for federal awards as required by the <i>Uniform Guidance</i> .	51
Exhibit #13	Auditee Response/Corrective Action Plan – a response by the College on the results of the audit and a corrective action plan for audit findings.	55



Department of **Examiners of Public Accounts**

SUMMARY

J. F. Drake State Community and Technical College October 1, 2019 through September 30, 2020

J. F. Drake State Community and Technical College (the “College”) is a comprehensive community and technical college that provides university-transfer and career technical education through academic and occupational training, from basic education through two-year academic and technical programs that can lead to Associate in Arts and Associate in Science general education transfer degrees. Certificates and/or Associate in Applied Science degrees are offered in the following areas: Advanced Manufacturing with concentrations in Electrical, Engineering Graphics, Machine Tool, and Welding; Business Administration; Automotive Technology; Salon and Spa Management; Culinary Arts/Hospitality Services; Electrical Engineering Technology; Computer Information Systems Technology; Heating and Air Conditioning Technology; Medical Assistant; and Nursing.

J. F. Drake State Community and Technical College is a publicly supported institution in the Alabama Community College System. The College is under the direction and control of the Alabama Community College System Board of Trustees through the Chancellor of the Alabama Community College System Office.

This report presents the results of an audit, the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the College complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, as well as, the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12.

An unmodified opinion was issued on the basic financial statements, which means the College’s financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2020.

AUDIT FINDING

A problem was found with the College's internal control over compliance for its federal assistance programs (Exhibit 12) and it is summarized below.

- ◆ 2020-001 relates to the College failing to obtain multiple price quotes for purchases made with federal funds in amounts between the micro-purchase threshold (\$10,000) and the Alabama Competitive Bid Law threshold (\$15,000).

EXIT CONFERENCE

The following officials/employees were invited to an exit conference to discuss the results of this audit: Dr. Patricia Sims, President; Akeem Alexander, Director of Fiscal Affairs; and Jimmy Baker, Chancellor of the Alabama Community College System. The following individuals attended the exit conference: Dr. Patricia Sims, President; Akeem Alexander, Director of Fiscal Affairs; and Katrina Harris, Chief Accountant. The following individuals from the Alabama Community College System attended via teleconference: Sara Calhoun, Executive Director of Fiscal Services; Billy Merrill, Associate Director of Financial Services – Special Projects; Donna Boutwell, Director of Compliance; and Julia Dennis, Financial Compliance Accountant. Representing the Department of Examiners of Public Accounts were: Melissa Knepper, Audit Manager, and Mistie Beam, Examiner.



Department of **Examiners of Public Accounts**

COMMENTS

J. F. Drake State Community and Technical College October 1, 2019 through September 30, 2020

J. F. Drake State Community and Technical College (the “College”) in Huntsville, Alabama had its origin in 1961 as Huntsville State Vocational Technical School when Act Number 126 of Acts of Alabama 1959 was approved. Act Number 93, Acts of Alabama 1963, on page 259 authorized the Governor, the Director of Finance, and the State Superintendent of Education to become a corporation, to be known as the Alabama Trade School and Junior College Authority, with the objective of providing for the construction and equipment of educational institutions within the state known as junior colleges and trade schools. Act Number 94 on page 268 vested in the Alabama State Board of Education the authority and responsibility for the operation, management, control, supervision, maintenance, regulation, upkeep, improvement, equipment, and enlargement of, and additions to, educational institutions known as trade schools and junior colleges.

The College was established in 1961 and opened its doors on September 4, 1962, with the late Mr. S. C. O’Neal as its first president. In 1962, the College was established on a 30-acre plot donated by Alabama A&M University. Mr. O’Neal served as President until 1983, when Dr. Johnny L. Harris was appointed its second president. Dr. Harris served in this capacity until his retirement in August 2000. Dr. Helen T. McAlpine was appointed the third president and the first female president from October 26, 2000 to November 2015. Dr. Kemba Chambers was appointed Acting President by the Chancellor on November 23, 2015. She became Interim President on April 1, 2016, and served in this capacity until May 31, 2017. Mr. Christopher Lewis was appointed Interim President on June 1, 2017. In August 2018, Dr. Cynthia Anthony was named Interim President. In December 2018, Dr. Patricia G. Sims became the fourth president of Drake State.

In 1966, the College was renamed J. F. Drake State Technical Trade School in honor of Dr. Joseph Fanning Drake, president of Alabama A&M University for thirty-five years. In 1973, the College was given technical college status by the Alabama State Board of Education, and thus assumed the name of J. F. Drake State Technical College. The College was then authorized by the Board to offer the Associate in Applied Technology degree.

In 2012, the College received accreditation by the Southern Association of Colleges and School Commission on Colleges (SACSCOC) effective January 1, 2012, enabling Drake State students to seamlessly transfer their general education credit hours to any other regionally-accredited college or university throughout the United States. In 2016, the College's regional accreditation was reaffirmed by SACSCOC for ten years.

In April 2013, the Alabama State Legislature enacted legislation that changed the name of the College to J. F. Drake State Community and Technical College, the first two-year college in Alabama to receive the designation of both community and technical college.

In September 2013, the Alabama Commission on Higher Education approved the instructional role change of Drake State to enable the College to offer the Associate in Arts and Associate in Science general education transfer degrees and the Associate in Applied Science degree in career technical disciplines.

Independent Auditor's Report

Independent Auditor's Report

Jimmy Baker, Chancellor – Alabama Community College System
Dr. Patricia Sims, President – J. F. Drake State Community and Technical College
Huntsville, Alabama 35811

Report on the Financial Statements

We have audited the accompanying basic financial statements of J. F. Drake State Community and Technical College, a component unit of the State of Alabama, as of and for the year ended September 30, 2020, and related notes to the financial statements which collectively comprise J. F. Drake State Community and Technical College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of J. F. Drake State Community and Technical College, as of September 30, 2020, and its changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the College's Proportionate Share of the Collective Net Pension Liability, the Schedule of the College's Contributions – Pension, the Schedule of the College's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability and the Schedule of the College's Contributions – Other Postemployment Benefits (OPEB) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

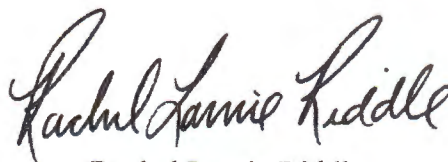
Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise J. F. Drake State Community and Technical College's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 8), is presented for the purposes of additional analysis, as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*), and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with ***Government Auditing Standards***, we have also issued our report dated June 22, 2021, on our consideration of J. F. Drake State Community and Technical College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of J. F. Drake State Community and Technical College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering J. F. Drake State Community and Technical College's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

June 22, 2021

Management's Discussion and Analysis
(Required Supplementary Information)

J. F. DRAKE STATE COMMUNITY & TECHNICAL COLLEGE

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

J. F. Drake State Community & Technical College has been committed to fulfill the diverse needs of its community by offering flexible and affordable university-transfer and technical degrees, certificates, adult and continuing education, and customized workforce training. Because of its location in the high-tech city of Huntsville, which is called the space and rocket capital of America, the College is dedicated to the teaching and advancement of the highest caliber of technical skills through state-of-the-art facilities and equipment. The College seeks to produce an effective participatory citizenship with economic potential as well as civic and social commitment. To this end, the College seeks to maintain a sound fiscal foundation in support of its mission in addition to providing responsible stewardship of public funds in compliance with state law.

Three financial statements are presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flow. The following financial statements and analysis provide an overview of the financial activities for the year ending September 30, 2020.

The fiscal philosophy of the administration is to use resources to continually improve in all areas in alignment with the mission of the college while providing for a reasonable reserve of funds. These financial statements reflect the realization of that philosophy for the 2020 fiscal year.

Statement of Net Position

The Statement of Net Position presents the total assets, deferred outflows, liabilities, deferred inflows, and net position of the College at the end of the fiscal year. The statement conveys the total owed to third parties, as well as assets available to support the operations of the college. The difference between current and noncurrent assets is detailed in the financial statement disclosures.

Net position is divided into three major categories: Net Investment in Capital Assets, Restricted Assets, and Unrestricted Assets.

- Net investment in capital assets include equity in property, plant, and equipment.
- Restricted net position is divided into two categories: expendable and nonexpendable.

Restricted net position is available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The corpus of nonexpendable restricted resources is only available for investment purposes.

- Unrestricted net position is available to the college for any appropriate purpose of the institution.

A condensed Statement of Net Position at September 30, 2020, and 2019, is presented below.

Condensed Statement of Net Position

	2020	2019	Increase (Decrease)	Percent Change
Assets:				
Current	7,997,694	6,011,723	1,985,971	33.0
Noncurrent	7,614,997	7,165,387	449,610	6.0
Total Assets	15,612,691	13,177,110	2,435,581	18.0
Deferred Outflows of Resources	1,359,824	1,293,172	66,652	5.0
Liabilities:				
Current	2,451,242	1,576,340	874,902	56.0
Noncurrent	9,150,431	11,667,771	(2,517,340)	(22.0)
Total Liabilities	11,601,673	13,244,111	(1,642,438)	(12.0)
Deferred Inflows of Resources	4,414,810	2,675,145	1,739,665	65.0
Net Position:				
Net Investment in Capital Assets	6,951,996	6,289,387	662,609	11.0
Restricted	0	0	0	0
Unrestricted	(5,995,964)	(7,738,360)	1,742,396	23.0
Total Net Position	956,032	(1,448,973)	2,405,005	166.0

During fiscal year 2020, total assets increased 18%. This increase is derived from a \$1.8 million increase in cash and cash equivalent across the period due to a reduction in operations and an influx of federal grants funds utilized to respond to the pandemic environment.

The 56% increase in current liabilities is a direct result of the unearned revenue liability variance of \$950,932.80. Noncurrent liabilities report a decrease of 22% due to a change in valuation of the estimates to the OPEB and Pension liability benefits to College employees.

The Deferred Inflow of Resources totaling \$4,414,810 increased from previous years by 65% as the component related to the OPEB increased by \$2,112,665 from the previous fiscal year's total.

As of September 30, 2020, the College's net position from the fiscal year 2019-2020 reflects an increase of \$2.405 million in total net position. Of this figure, \$1.742 million is the result of an increase in unrestricted net position as a corresponding \$662 thousand increase within investment in capital assets. This corresponds to an equivalent increase in cash and cash equivalents in current assets and net capital assets.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). The purpose of the statement is to present the revenues received by the College, both operating and non-operating, and expenses paid. Operating revenues are received for providing instruction and other instructional services to the various constituencies of the College. Operating expenses are those expenses paid in return for the operating revenues and to carry out the College's mission. Non-operating revenues are revenues received for services that the College does not provide. For example, state appropriations are non-operating because they are provided by the Alabama State Legislature to the College without the legislature directly receiving commensurate services for those revenues. Readers of these financial statements should gain an understanding of the impact of the presentation of state appropriations as non-operating revenues, a requirement of the Governmental Accounting Standards Board. The main impact of this classification is that the College presents an operating loss in the following SRECNP. While at face value an operating loss might indicate fiscal concerns that should be addressed by the College's administration, the net operating loss presented in these financial statements must be viewed in its proper context. The College considers state appropriations to be an integral part of the entire fiscal viability of the institution and recommends this perspective to financial statement readers. A condensed Statement of Revenues, Expenses and Changes in Net Position for the 2020 and 2019 fiscal years is presented below.

Condensed Statement of Revenues, Expenses, and Changes in Net Position

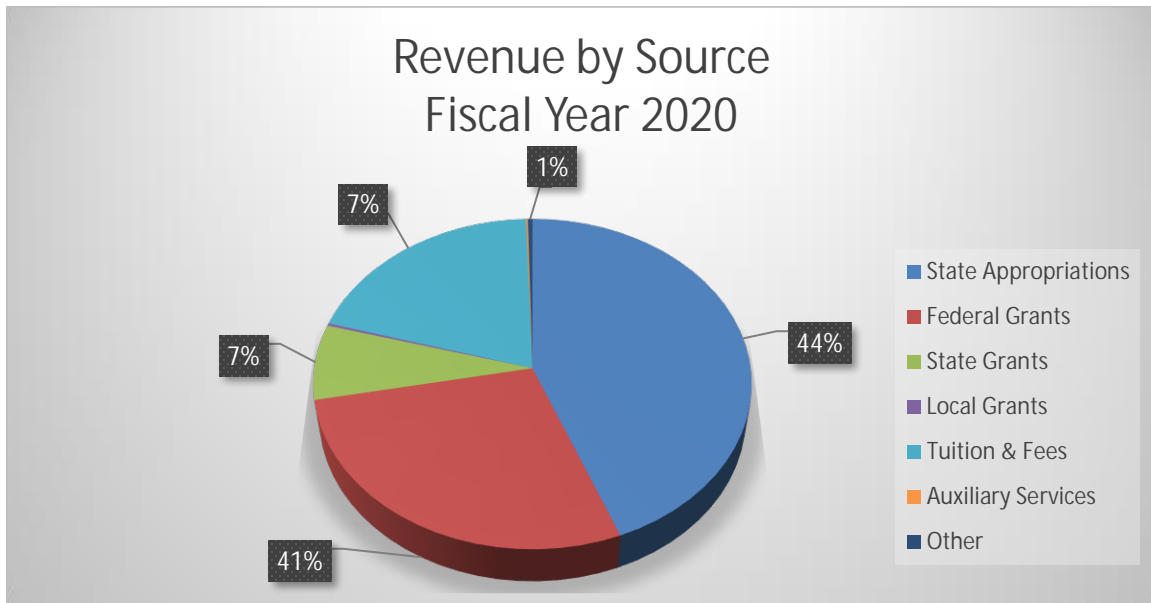
	2020	2019	Increase (Decrease)	Percent Change
Operating Revenues	4,805,645	3,830,086	975,559	25.0
Operating Expenses	10,684,254	9,864,440	819,814	8.0
Operating Loss	(5,878,609)	(6,034,354)	155,745	(3.0)
Non-operating Revenues and Expenses	8,578,604	7,602,519	976,085	13.0
Income before other Revenues and Expenses	2,699,995	1,568,165	1,131,829	72.0
Other Revenues and Expenses	0	0	0	0
Increase (Decrease) in Net Position	2,699,995	1,568,165	1,131,829	72.0
Net Position, Beginning of Year	(1,448,973)	(3,249,224)	1,800,251	55.0
Restatements	(294,990)	232,086	(527,076)	(227.0)
Net Position, End of Year	956,032	(1,448,973)	2,405,005	166.0

Operating revenues for the year ending September 30, 2020, increased approximately 25.0%. The increase is the result of the College being awarded additional Federal grants during the fiscal year 2020.

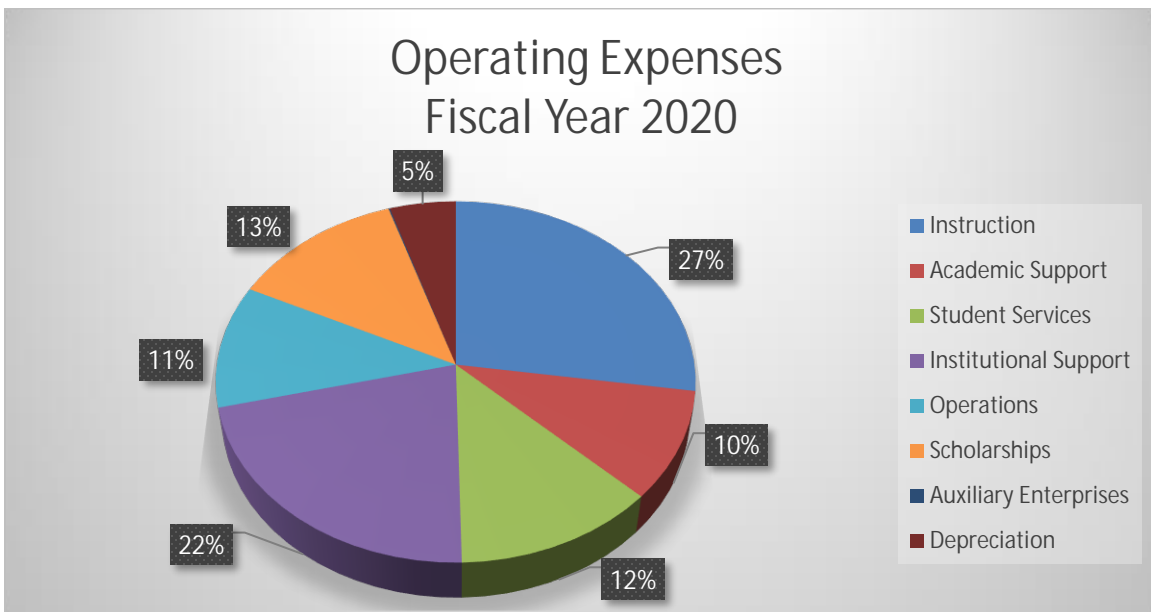
Operating expenses for the 2020 fiscal year also increased by approximately 8%. Expenses for the eight major functions presented changed as follows: Instruction increased 5.0%; academic support decreased 3.0%; student services increased 6.0%; institutional support decreased 15.0%; operation and maintenance of plant expenses increased 65%; student aid increased 54.0%; and depreciation increase 15.0%.

Non-operating revenues for the 2020 fiscal year increased overall by 13% as state appropriations allocations increased along with non-operating Federal grants. The College experienced a 72% increase in the net position at the end of the year reflective of increases to revenues, both operating and non-operating, unproportionate to incurred expenditures across the same period.

The following is a graphic presentation of the total revenues by source for the fiscal year ending September 30, 2020.



The following is a graphic presentation of operating expenses by function for the year ending September 30, 2020.



Statement of Cash Flows

The final statement presented is the Statement of Cash Flows which presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash used by operating activities. The second section reflects cash flows from noncapital financing activities. Noncapital financing activities include the cash received and spent for non-operating, non-investing, and other noncapital financing purposes. The third section deals with cash used from capital and related financing activities. Capital and related activities are those in which cash is used for the acquisition and construction of capital assets and assets related to construction and renovation. The fourth section of the statement presents cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position to the net cash provided or used by operating activities. A condensed Statement of Cash Flows for the years ending September 30, 2020 and 2019 is presented below.

Condensed Statement of Cash Flows for the Year ended September 30th

	2020	2019	Increase (Decrease)	Percent Change
Cash Flows from (Used) in Operating Activities	(5,420,019)	(5,771,727)	351,708	6.0
Cash Flows Non-Capital Financing Activities	8,571,241	7,661,578	909,663	12.0
Cash Flows from (Used) in Capital and Related Financing Activities	(1,351,661)	(697,256)	(654,405)	(94.0)
Cash Flows from Investing Activities	13,246	11,503	1,743	15.0
Net Increase (Decrease) in Cash	1,812,807	1,204,098	608,709	51.0

Economic Outlook

State Appropriations increased slightly within fiscal periods 2020 and is slated to remain level funded in the next fiscal period. Also, in response to the pandemic environment that the country entered into as of March 13, 2020, a dramatic increase in Federal funding became available and was allowed to be carried through to the fiscal year 2021. The College, cognitive of the changes to the current environment were able to re-evaluate its business model and make the necessary adjustments to continue operations while adhering to an altered safety protocol. Overall, the College was able to successfully move to a remote model while maintaining its enrollment numbers. In addition, the College was able to increase reserves as key operational expenditures were not incurred. This resulted in a major increase in cash and cash equivalents by the College through the fiscal period ending September 30, 2020. As the pandemic still continues, the College continues its efforts to monitor the national health crisis so as to preserve the health and safety of its constituents while striving to deliver high quality education and training to the community.

At this time, the pandemic still remains a concern to the College although it has been able to gracefully weather the storm. Through it all the administration expects to sustain positive financial stability over the years ahead as the College increases its distance learning offering and continues its vigilance in maintaining safe educational meeting space for which social distancing and disinfecting is possible. The College anticipates that the upcoming fiscal years will have challenges as the country continues its recovery; however, due to careful planning and immediate action, the College is prime to successfully continue on operations.

Basic Financial Statements

Statement of Net Position
September 30, 2020

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 6,596,236.42
Accounts Receivable, Net	1,225,762.74
Inventories	29,151.83
Prepaid Expenses	146,543.38
Total Current Assets	<u>7,997,694.37</u>

Noncurrent Assets

Capital Assets:	
Land	2,375.05
Improvements Other Than Buildings	958,791.15
Buildings and Alterations	10,586,196.40
Equipment and Furniture	3,608,552.83
Library Holdings	735,684.07
Less: Accumulated Depreciation	<u>(8,276,603.08)</u>
Total Capital Assets, Net of Depreciation	<u>7,614,996.42</u>
Total Noncurrent Assets	<u>7,614,996.42</u>
Total Assets	<u>15,612,690.79</u>

Deferred Outflow of Resources

Loss on Refunding	16,249.35
Pension	1,088,346.21
Other Postemployment Benefit (OPEB)	255,228.38
Total Deferred Outflow of Resources	<u>\$ 1,359,823.94</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

LIABILITIES**Current Liabilities**

Accounts Payable and Accrued Liabilities	\$ 473,203.59
Bond Surety Fee Payable	2,604.36
Deposit Liabilities	87,991.64
Unearned Revenue	1,623,785.83
Bonds Payable	216,000.00
Compensated Absences	47,656.73
Total Current Liabilities	<u>2,451,242.15</u>

Noncurrent Liabilities

Compensated Absences	245,413.99
Bonds Payable	447,000.00
Net Pension Liability	6,446,000.00
Other Postemployment Benefit (OPEB) Liability	2,012,017.00
Total Noncurrent Liabilities	<u>9,150,430.99</u>

Total Liabilities	<u>11,601,673.14</u>
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Deferred Inflow of Resources

Pension	1,286,000.00
Other Postemployment Benefit (OPEB)	3,128,810.00
Total Deferred Inflow of Resources	<u>4,414,810.00</u>

NET POSITION

Net Investment in Capital Assets	6,951,996.42
Unrestricted	<u>(5,995,964.83)</u>
Total Net Position	<u>\$ 956,031.59</u>

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Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended September 30, 2020

OPERATING REVENUES

Student Tuition and Fees (Net of Scholarship Allowances of \$1,721,675.36)	\$ 949,902.40
Sales and Services of Educational Activities	28,737.31
Federal Grants and Contracts	2,778,944.31
State Grants and Contracts	987,076.34
Local Grants and Contracts	33,663.29
Nongovernmental Grants and Contracts	4,933.62
Auxiliary Enterprises:	
Bookstore	7,820.94
Vending	2,697.89
Student Activities	300.00
Other	6,409.36
Other Operating Revenue	5,159.60
Total Operating Revenues	<u>4,805,645.06</u>

OPERATING EXPENSES

Instruction	2,919,214.90
Academic Support	1,042,057.36
Student Services	1,342,287.26
Institutional Support	2,305,837.45
Operation and Maintenance	1,176,405.53
Scholarships and Financial Aid	1,366,606.53
Auxiliary Enterprises	10,000.00
Depreciation	521,845.43
Total Operating Expenses	<u>10,684,254.46</u>
Operating Income (Loss)	<u>(5,878,609.40)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	5,906,725.44
Federal Grants	2,689,988.59
Investment Income	13,246.38
Gifts	220.00
Interest on Indebtedness	(15,941.74)
Bond Surety Fee Expense	(13,546.79)
Other Nonoperating Revenues (Expenses)	(2,088.00)
Net Nonoperating Revenues	<u>8,578,603.88</u>
Changes in Net Position	2,699,994.48
Total Net Position - Beginning of Year, as Restated (See Note 11)	<u>(1,743,962.89)</u>
Total Net Position - End of Year	<u>\$ 956,031.59</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Cash Flows
For the Year Ended September 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and Fees	\$ 1,006,505.27
Grants and Contracts	4,459,906.31
Sales and Services of Educational Activities	28,737.31
Other Receipts (Payments)	5,159.60
Payments for Benefits	(1,584,897.55)
Payments to Suppliers	(2,666,606.16)
Payments to Employees	(5,037,565.73)
Payments to Utilities	(281,883.30)
Payments for Scholarships	(1,366,606.53)
Auxiliary Enterprises	17,232.15
Net Cash Provided (Used) by Operating Activities	<u>(5,420,018.63)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	5,906,725.44
Federal Grants	2,689,988.59
Bond Surety Fee Expense	(4,408.56)
Other	(21,064.83)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>8,571,240.64</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	(1,122,719.73)
Principal Paid on Capital Debt	(213,000.00)
Interest Paid on Capital Debt	(15,941.74)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,351,661.47)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>13,246.38</u>
Net Cash Provided (Used) by Investing Activities	<u>13,246.38</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,812,806.92
Cash and Cash Equivalents - Beginning of Year	<u>4,783,429.50</u>
Cash and Cash Equivalents - End of Year	<u>\$ 6,596,236.42</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Reconciliation of Net Operating Revenues (Expenses) to Net
Cash Provided (Used) by Operating Activities:**

Operating Income (Loss) \$ (5,878,609.40)

**Adjustments to Reconcile Net Operating Income (Loss)
to Net Cash Provided (Used) by Operating Activities:**

Depreciation Expense	521,845.43
Changes in Assets and Liabilities:	
(Increase)/Decrease in Receivables, Net	(257,410.94)
(Increase)/Decrease in Prepaids	(12,487.08)
(Increase)/Decrease in Inventories	(62,635.17)
(Increase)/Decrease in Deferred Outflows	(18,499.41)
Increase/(Decrease) in Pension Liability	204,000.00
Increase/(Decrease) in OPEB Liability	(2,545,678.00)
Increase/(Decrease) in Deferred Inflow	1,739,665.00
Increase/(Decrease) in Accounts Payable	(90,735.92)
Increase/(Decrease) in Unearned Revenue	935,579.07
Increase/(Decrease) in Compensated Absences	44,947.79

Net Cash Provided (Used) by Operating Activities	<u>\$ (5,420,018.63)</u>
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Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 1 – Summary of Significant Accounting Policies

The financial statements of J. F. Drake State Community and Technical College (the “College”) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the College are described below.

A. Reporting Entity

The College is a component unit of the State of Alabama. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board (GASB) in Statement Number 14, “The Financial Reporting Entity,” states that a primary government is financially accountable for a component unit if it appoints a voting majority of an organization’s governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. In this case, the primary government is the State of Alabama which through the Alabama Community College System Board of Trustees governs the Alabama Community College System. The Alabama Community College System through its Chancellor has the authority and responsibility for the operation, management, supervision and regulation of the College. In addition, the College receives a substantial portion of its funding from the State of Alabama (potential to impose a specific financial burden). Based on these criteria, the College is considered for financial reporting purposes to be a component unit of the State of Alabama.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

It is the policy of the College to first apply restricted resources when an expense is incurred and then apply unrestricted resources when both restricted and unrestricted net position are available.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The Statement of Revenues, Expenses and Changes in Net Position distinguishes between operating and nonoperating revenues. Operating revenues, such as tuition and fees, result from exchange transactions associated with the principal activities of College. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Nonoperating revenues arise from exchange transactions not associated with the College's principal activities, such as investment income and from all nonexchange transactions, such as state appropriations.

C. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Statutes authorize the College to invest in the same type of instruments as allowed by Alabama law for domestic life insurance companies. This includes a wide range of investments, such as direct obligations of the United States of America, obligations issued or guaranteed by certain federal agencies, and bonds of any state, county, city, town, village, municipality, district or other political subdivision of any state or any instrumentality or board thereof or of the United States of America that meet specified criteria.

Investments are reported at fair value based on quoted market prices.

2. Receivables

Accounts receivable relate to amounts due from federal grants, state grants, third party tuition and auxiliary enterprise sales. The receivables are shown net of allowance for doubtful accounts.

Notes to the Financial Statements

For the Year Ended September 30, 2020

3. Capital Assets

Capital assets, other than intangibles, with a unit cost of over \$5,000 and an estimated useful life in excess of one year, and all library books, are recorded at historical cost or estimated historical cost if purchased or constructed. The capitalization threshold for intangible assets such as capitalized software and internally generated computer software is \$1 million and \$100,000 for easements and land use rights and patents, trademarks and copyrights. In addition, works of art and historical treasures and similar assets are recorded at their historical cost. Donated capital assets are recorded at acquisition cost (an entry price). Land and Construction in Progress and intangible assets with indefinite lives are the only capital assets that are not depreciated. Depreciation is not allocated to a functional expense category. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon the sale or retirement of fixed assets being depreciated using the straight-line method, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operation.

The method of depreciation and useful lives of the capital assets are as follows:

Assets	Depreciation Method	Useful Lives
Buildings and Improvements	Straight-Line	50 years
Improvements Other Than Buildings	Straight-Line	25 years
Equipment	Straight-Line	5 – 10 years
Library Materials	Composite	20 years
Capitalized Software	Straight-Line	10 years
Internally Generated Computer Software	Straight-Line	10 years
Easement and Land Use Rights	Straight-Line	20 years
Patents, Trademarks, and Copyrights	Straight-Line	20 years

4. Deferred Outflows of Resources

Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

Notes to the Financial Statements

For the Year Ended September 30, 2020

5. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond/Warrant premiums and discounts are deferred and amortized over the life of the bonds.

6. Compensated Absences

No liability is recorded for sick leave. Substantially all employees of the College earn 12 days of sick leave each year with unlimited accumulation. Payment is not made to employees for unpaid sick leave at termination or retirement.

All non-instructional employees earn annual leave at a rate which varies from 12 to 24 days per year depending on duration of employment, with accumulation limited to 60 days. Instructional employees do not earn annual leave. Payment is made to employees for unused leave at termination or retirement.

7. Deferred Inflows of Resources

Deferred inflows of resources are reported in the Statement of Net Position. Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position, similar to liabilities.

8. Unearned Tuition and Fee Revenue

Tuition and fee revenues received for Fall Term but related to the portion of the term that occurs in the subsequent fiscal year have been disclosed as unearned revenue.

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Teachers' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

Notes to the Financial Statements

For the Year Ended September 30, 2020

10. Postemployment Benefits Other Than Pensions (OPEB)

The Alabama Retired Education Employees' Health Care Trust (the "Trust") financial statements are prepared by using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. Subsequent events were evaluated by management through the date the financial statements were issued.

11. Net Position

Net position is required to be classified for accounting and reporting purposes into the following categories:

- ◆ **Net Investment in Capital Assets** – Capital assets, including restricted capital assets, reduced by accumulated depreciation and by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Any significant unspent related debt proceeds or inflows of resources at year-end related to capital assets are not included in this calculation.
- ◆ **Restricted:**
 - ✓ **Nonexpendable** – Net position subject to externally imposed stipulations that they be maintained permanently by the College. Such assets include the College's permanent endowment funds.
 - ✓ **Expendable** – Net position whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time. These include funds held in federal loan programs.
- ◆ **Unrestricted** – Net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted resources may be designated for specific purposes by action of management or the Alabama Community College System Board of Trustees.

Notes to the Financial Statements

For the Year Ended September 30, 2020

12. Federal Financial Assistance Programs

The College participates in various federal programs. Federal programs are audited in accordance with the Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

13. Scholarship Allowances and Student Aid

Student tuition and fees are reported net of scholarship allowances and discounts. The amount for scholarship allowances and discounts is the difference between the stated charge for goods and services provided by the College and the amount that is paid by the student and/or third parties making payments on behalf of the student. The College uses the case-by-case method as prescribed by the National Association of College and University Business Officers (NACUBO) in their Advisory Report 2000-05 to determine the amount of scholarship allowances and discounts.

Note 2 – Deposits and Investments

A. Deposits

The College's deposits at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The Statement of Net Position classification "cash and cash equivalents" includes all readily available cash such as petty cash, demand deposits, and certificates of deposits with maturities of three months or less.

Notes to the Financial Statements

For the Year Ended September 30, 2020

B. Investments

The College may invest its funds in a manner consistent with all applicable state and federal regulations. All monies shall be placed in interest-bearing accounts unless legally restricted by an external agency. Investments in debt securities are limited to the two highest quality credit ratings as described by nationally recognized statistical rating organizations (NRSROs). Obligations of the U. S. government or obligations explicitly guaranteed by the U. S. government are excluded from this requirement. Permissible investments include: 1) U. S. Treasury bills, notes, bonds, and stripped Treasuries; 2) U. S. Agency notes, bonds, debentures, discount notes and certificates; 3) certificates of deposit (CDs), checking and money market accounts of savings and loan associations, mutual savings banks, or commercial banks whose accounts are insured by FDIC/FSLIC, and who are designated a Qualified Public Depository (QPD) under the SAFE Program; 4) mortgage backed securities (MBSs); 5) mortgage-related securities including collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMIC) securities, 6) repurchase agreements; and 7) stocks and bonds which have been donated to the institution.

The College's portfolio shall consist primarily of bank CDs and interest-bearing accounts, U. S. Treasury securities, debentures of a U. S. Government Sponsored Entity (GSE) and securities backed by collateral issued by GSEs. In order to diversify the portfolio's exposure to concentration risk, the portfolio's maximum allocation to specific product sectors is as follows: 1) U. S. Treasury bills, notes and bonds can be held without limitation as to amount. Stripped Treasuries shall never exceed 50 percent of the institution's total investment portfolio. Maximum maturity of these securities shall be ten years. 2) U. S. Agency securities shall have limitations of 50 percent of the College's total investment portfolio for each Agency, with two exceptions: TVA and SLMA shall be limited to ten percent of total investments. Maximum maturity of these securities shall be ten years. 3) CDs with savings and loan associations, mutual savings banks, or commercial banks may be held without limit provided the depository is a QPD under the SAFE Program. CD maturity shall not exceed five years. 4) The aggregate total of all MBSs may not exceed 50 percent of the institution's total investment portfolio. The aggregate average life maturity for all holdings of MBS shall not exceed seven years, while the maximum average life maturity of any one security shall not exceed ten years. 5) The total portfolio of mortgage related securities shall not exceed 50 percent of the institution's total investment portfolio. The aggregate average life maturity for all holdings shall not exceed seven years while the average life maturity of one security shall not exceed ten years. 6) The College may enter into a repurchase agreement so long as: (a) the repurchase securities are legal investments under state law for colleges; (b) the College receives a daily assessment of the market value of the repurchase securities, including accrued interest, and maintains an adequate margin that reflects a risk assessment of the repurchase securities and the term of the transaction; and (c) the College has entered into signed contracts with all approved counterparties. 7) The College has discretion to determine if it should hold or sell other investments that it may receive as a donation.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The College shall not invest in stripped mortgage backed securities, residual interest in CMOs, mortgage servicing rights or commercial mortgage related securities.

Investment of debt proceeds and deposits with trustees is governed by the provisions of the debt agreement. Funds may be invested in any legally permissible document.

Endowment donations shall be invested in accordance with the procedures and policies developed by the College and approved by the Chancellor in accordance with the “Alabama Uniform Prudent Management of Institutional Funds Act”, *Code of Alabama 1975*, Sections 19-3C-1 and following.

Note 3 – Receivables

Receivables are reported net of uncollectible amounts and are summarized as follows:

<u>Accounts Receivable:</u>	
Federal	\$ 892,933.54
State	264,211.97
Third Party	84,291.27
Auxiliary	75,588.69
Student	1,072,031.79
Agency	1,330.43
Returned Checks	636.00
Less: Allowance for Doubtful Accounts	(1,165,260.95)
Total Accounts Receivable, Net	<u>\$ 1,225,762.74</u>

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2020, was as follows:

	Beginning Balance	Additions	Deductions	Adjustments/ Reclassifications	Ending Balance
Land	\$ 2,375.05	\$	\$	\$	\$ 2,375.05
Buildings	10,189,317.87	396,878.53			10,586,196.40
Improvements Other Than Buildings	958,791.15				958,791.15
Equipment >\$25,000	1,566,663.47	498,868.02			2,065,531.49
Equipment < \$25,000	1,435,716.10	220,990.09	(113,684.85)		1,543,021.34
Library Holdings	870,179.18	5,983.09	(140,478.20)		735,684.07
Total	15,023,042.82	1,122,719.73	(254,163.05)		15,891,599.50
Less: Accumulated Depreciation					
Buildings	4,241,649.63	195,133.21		151,265.14	4,588,047.98
Improvements Other Than Buildings	767,207.37	15,768.07			782,975.44
Equipment >\$25,000	1,070,698.41	152,221.73			1,222,920.14
Equipment < \$25,000	1,266,537.53	123,314.68	(113,684.85)		1,276,167.36
Library Holdings	511,562.62	35,407.74	(140,478.20)		406,492.16
Total Accumulated Depreciation	7,857,655.56	521,845.43	(254,163.05)	151,265.14	8,276,603.08
Capital Assets, Net	\$ 7,165,387.26	\$ 600,874.30	\$	\$(151,265.14)	\$ 7,614,996.42

Note 5 – Defined Benefit Pension Plan

A. Plan Description

The Teachers' Retirement System of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan (the "Plan"), was established as of September 15, 1939, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975*, Section 16-25-2, grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2020

B. Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members are eligible for retirement after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

C. Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS were required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Notes to the Financial Statements

For the Year Ended September 30, 2020

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2020, was 12.43% of annual pay for Tier 1 members and 11.34% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the College was \$562,346.21 for the year ended September 30, 2020.

D. Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2020, the College reported a liability of \$6,446,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2019 and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of September 30, 2018. The College's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2019, the College's proportion was 0.058299%, which was a decrease of 0.004477% from its proportion measured as of September 30, 2018.

For the year ended September 30, 2020, the College recognized pension expense of \$336,148.55. At September 30, 2020, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 95,000	\$ 214,000
Changes of assumptions	199,000	
Net difference between projected and actual earnings on pension plan investments	224,000	
Changes in proportion and differences between employer contributions and proportionate share of contributions	8,000	
Employer contributions subsequent to the measurement date	562,000	1,072,000
Total	<u>\$1,088,000</u>	<u>\$1,286,000</u>

Notes to the Financial Statements

For the Year Ended September 30, 2020

The \$562,000 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ending:	
September 30, 2021	\$(364,000)
2022	\$(302,000)
2023	\$(105,000)
2024	\$ 23,000
2025	\$ (12,000)
Thereafter	\$ 0

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.70%
Projected Salary Increases	3.25-5.00%
(*) Net of pension plan investment expense	

The actuarial assumptions used in the September 30, 2018, valuation were based on the results of an actual experience study for the period October 1, 2010 through September 30, 2015.

Mortality rates for TRS were based on the sex distinct RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for males and 112% for females age 78 and older. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	<u>100.00%</u>	
(*) Includes assumed rate of inflation of 2.50%.		

F. Discount Rate

The discount rate used to measure the total pension liability was 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to the Financial Statements

For the Year Ended September 30, 2020

G. Sensitivity of the College's Proportionate Share of the Collective Net Pension Liability to Changes in the Discount Rate

The following table presents the College's proportionate share of the collective net pension liability calculated using the discount rate of 7.70%, as well as what the College's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Discount Rate (7.70%)	1% Increase (8.70%)
College's proportionate share of collective net pension liability	\$8,751,000	\$6,446,000	\$4,496,000

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2019. The auditor's report dated August 18, 2020, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2019, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 6 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Alabama Retired Education Employees' Health Care Trust (the "Trust") is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (PEEHIB) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in the Public Education Employees' Health Insurance Plan (PEEHIP). Active and retiree health insurance benefits are paid through PEEHIP. In accordance with GASB, the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's Comprehensive Annual Financial Report.

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975*, Section 16-25A-4, (Act Number 83-455, Acts of Alabama) to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the PEEHIB. The PEEHIB is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIP are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

B. Benefits Provided

PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eyeglasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2020, Humana Insurance Company replaced United Healthcare as the administrator of the PEEHIP Group Medicare Advantage (PPO) Plan. The plan is fully insured, and members are able to have all of their Medicare Part A (hospital insurance), Part B (medical insurance), and Part D (prescription drug coverage) in one convenient plan. Retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Members have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

Notes to the Financial Statements

For the Year Ended September 30, 2020

C. Contributions

The *Code of Alabama 1975*, Section 16-25A-8, and the *Code of Alabama 1975*, Section 16-25A-8.1, provide the PEEHIB with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the PEEHIB is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the PEEHIB for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% for each year of service over 25 subject to adjustment by the PEEHIB for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the PEEHIB for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the PEEHIB for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the PEEHIB for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the PEEHIB. This reduction in the employer contribution ceases upon notification to the PEEHIB of the attainment of Medicare coverage.

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2020, the College reported a liability of \$2,012,017 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018. The College's proportion of the collective net OPEB liability was based on a projection of the College's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2019, the College's proportion was 0.053330%, which was a decrease of 0.002125% from its proportion measured as of September 30, 2018.

Notes to the Financial Statements

For the Year Ended September 30, 2020

For the year ended September 30, 2020, the College recognized OPEB expense of \$(362,638) with no special funding situations. At September 30, 2020, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 66,620	\$1,542,728
Changes of assumptions	96,186	833,389
Net difference between projected and actual earnings on OPEB plan investments	4,151	
Changes in proportion and differences between employer contributions and proportionate share of contributions		752,542
Employer contributions subsequent to the measurement date	88,271	
Total	<u>\$255,228</u>	<u>\$3,128,659</u>

The \$88,271 reported as deferred outflows of resources related to OPEB resulting from the College's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending:	
September 30, 2021	\$(650,511)
2022	\$(650,511)
2023	\$(645,239)
2024	\$(497,268)
2025	\$(443,404)
Thereafter	\$ (74,769)

Notes to the Financial Statements

For the Year Ended September 30, 2020

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases (1)	3.25% - 5.00%
Long-Term Investment Rate of Return (2)	7.25%
Municipal Bond Index Rate at the Measurement Date	3.00%
Municipal Bond Index Rate at the Prior Measurement Date	4.18%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2055
Single Equivalent Interest Rate at the Measurement Date	5.50%
Single Equivalent Interest Rate at the Prior Measurement Date	4.44%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	6.75%
Medicare Eligible	(**)
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75% in 2026
Medicare Eligible	4.75% in 2024

(1) Includes 3.00% wage inflation.
(2) Compounded annually, net of investment expense, and includes inflation.
(**) Initial Medicare claims are set based on scheduled increases through plan year 2022

Mortality rates for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2016.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the actuarial valuation as of September 30, 2018. However, updated Medicare Advantage premium rates which reflect the repeal of the ACS Health Insurer Fee, updated optional claims costs, and updated participation assumptions were used in this report.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	30.00%	4.40%
U. S. Large Stocks	38.00%	8.00%
U. S. Mid Stocks	8.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash Equivalents	5.00%	1.50%
Total	<u>100.00%</u>	
(*) Geometric mean, includes 2.5% inflation		

Notes to the Financial Statements

For the Year Ended September 30, 2020

F. Discount Rate

The discount rate, also known as the Single Equivalent Interest Rate (SEIR), as described by GASB Statement Number 74, used to measure the total OPEB liability at September 30, 2019, was 5.50%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.44%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 24.245% of the employer contributions were used to assist in funding retiree benefit payments in 2019, and it is assumed that the amount will increase by 1.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members were projected through 2117. The long-term rate of return is used until the assets are expected to be depleted in 2055, after which the municipal bond rate is used.

G. Sensitivity of the College's Proportionate Share of the Collective Net OPEB Liability to Changes in Healthcare Cost Trend Rates

The following table presents the College's proportionate share of the collective net OPEB liability of the Trust calculated using the current healthcare trend rate, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.75% Decreasing to 3.75% for Pre-Medicare and Known Decreasing to 3.75% for Medicare Eligible)	Current Healthcare Trend Rate (6.75% Decreasing to 4.75% for Pre-Medicare and Known Decreasing to 4.75% for Medicare Eligible)	1% Increase (7.75% Decreasing to 5.75% for Pre-Medicare and Known Decreasing to 5.75% for Medicare Eligible)
College's proportionate share of the collective net OPEB liability	\$1,613,276	\$2,012,017	\$2,514,214

Notes to the Financial Statements

For the Year Ended September 30, 2020

H. Sensitivity of the College's Proportionate Share of the Collective Net OPEB Liability to Changes in the Discount Rate

The following table presents the College's proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 5.50%, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (4.50%)	Current Rate (5.50%)	1% Increase (6.50%)
College's proportionate share of collective net OPEB liability	\$2,431,989	\$2,012,017	\$1,669,039

I. OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement Number 74 Report for PEEHIP prepared as of September 30, 2019. Additional financial and actuarial information is available at www.rsa-al.gov.

Note 7 – Other Significant Commitments

As of September 30, 2020, the College had been awarded approximately \$1,508,065.21 in contracts and grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

Note 8 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at September 30, 2020 for goods and services received prior to the end of the fiscal year.

Salaries and Wages	\$135,213.54
Bookstore Payable	7,008.34
Supplies/Other	330,981.71
Total	<u>\$473,203.59</u>

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 9 – Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue Bonds – Direct Placement	\$ 876,000.00	\$	\$213,000.00	\$663,000.00	\$216,000.00
Compensated Absences	248,122.93	46,425.13	1,477.34	293,070.72	47,656.73
Total Long-Term Liabilities	<u>\$1,124,122.93</u>	<u>\$46,425.13</u>	<u>\$214,477.34</u>	<u>\$956,070.72</u>	<u>\$263,656.73</u>

The Revenue Bonds were issued in December 2015 by the Board of Trustees to finance the costs of refunding the Board's J. F. Drake State Technical College Revenue Bonds, Series 2003.

Revenue from student tuition and fees sufficient to pay the annual debt service are pledged to secure the bonds.

Principal and interest maturity requirements on bond debt are as follows:

Fiscal Year	Principal Payments	Interest Payments	Totals
2020-2021	\$216,000.00	\$11,867.70	\$227,867.70
2021-2022	223,000.00	8,001.30	231,001.30
2022-2023	224,000.00	4,009.60	228,009.60
Totals	<u>\$663,000.00</u>	<u>\$23,878.60</u>	<u>\$686,878.60</u>

Pledged Revenues

The College has pledged student tuition and fee revenue to repay the \$1,712,000 in Revenue Bond Series 2015 issued in December 2015, for the purpose of providing funds to refund the Revenue Bonds, Series 2003. Future revenues in the approximate amount of \$686,878.60 are pledged to repay principal and interest. During the 2020 fiscal year, pledged tuition and fee revenue in the amount of \$2,362,585.10 were received with \$228,941.74 or 9.69% of pledged revenues, being used to pay principal and interest. These bonds are scheduled to mature in fiscal year 2023.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The College's outstanding 2015 bonds from direct placement related to governmental activities contain a provision that in an event of default, the Bondholder shall have the right by mandamus or other lawful remedy in any court of competent jurisdiction to enforce his or its rights against the Issuer to fix and collect the Pledged Revenues, in amounts sufficient to meet the provisions of the Bond Resolution and carry out any other covenants contained in the resolution and to perform its duties under the resolution and Section 16-3-28, *Code of Alabama 1975*, as amended.

Note 10 – Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The College has insurance for its buildings and contents through the State Insurance Fund (SIF), part of the State of Alabama, Department of Finance; Division of Risk Management which operates as a common risk management and insurance program for state owned properties. The College pays an annual premium based on the amount of coverage requested. The SIF provides coverage up to \$2 million per occurrence and is self-insured up to a maximum of \$6 million in aggregate claims. The SIF purchases commercial insurance for claims which in the aggregate exceed \$6 million. The College purchases commercial insurance for its automobile coverage, general liability, and professional legal liability coverage. In addition, the College has fidelity bonds on the College's President, Director of Fiscal Affairs, and Financial Aid Officer as well as on all other College personnel who handle funds.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF) administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The College contributes a specified amount monthly to the PEEHIF for each employee and this amount is applied against the employee's premiums for the coverage selected and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded the College's coverage in any of the past three fiscal years.

Claims which occur as a result of employee job-related injuries may be brought before the State of Alabama Board of Adjustment. The Board of Adjustment serves as an arbitrator and its decision is binding. If the Board of Adjustment determines that a claim is valid, it decides the proper amount of compensation (subject to statutory limitations) and the funds are paid by the College.

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 11 – Net Position Restatement

Prior period adjustments have been made as outlined below:

Net Position September 30, 2019	\$(1,448,972.77)
To Correct Deposit with Trustees Balance	(0.24)
To Record Reversal of Fiscal Year 2018 Prepaid Expenses	(105,925.46)
To Correct Alliant Prior Year Accounts Receivable	(33,727.45)
To Correct Bond Reserve Fee for Fiscal Year 2019	5,123.35
To Correct Depreciation for Buildings for Prior Years	(151,265.14)
To Reallocate Unrestricted Fund Balance to Restricted	(9,195.18)
Total Prior Period Adjustments	<u>(294,990.12)</u>
Net Position October 1, 2019, as Restated	<u><u>\$(1,743,962.89)</u></u>

Required Supplementary Information

Schedule of the College's Proportionate Share of the Collective Net Pension Liability
For the Year Ended September 30, 2020
(Dollar amounts in thousands)

	2020	2019	2018	2017	2016	2015
College's proportion of the collective net pension liability	0.058299%	0.062776%	0.069142%	0.071344%	0.078133%	0.076619%
College's proportionate share of the collective net pension liability	\$ 6,446	\$ 6,242	\$ 6,796	\$ 7,951	\$ 8,177	\$ 6,961
College's covered payroll during the measurement period (*)	\$ 4,157	\$ 4,167	\$ 4,582	\$ 4,692	\$ 4,961	\$ 4,884
College's proportionate share of the collective net pension liability as a percentage of its covered payroll	155.06%	149.80%	148.32%	169.46%	164.83%	142.53%
Plan fiduciary net position as a percentage of the total collective pension liability	69.85%	72.29%	71.50%	67.93%	67.51%	71.01%

(*) Per GASB 82, which amends GASB 68, covered payroll is defined as the payroll on which contributions to a pension plan are based, also known as pensionable payroll. For fiscal year 2020, the measurement period for covered payroll is October 1, 2018 through September 30, 2019.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of the College's Contributions - Pension
For the Year Ended September 30, 2020
(Dollar amounts in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 562	\$ 507	\$ 506	\$ 541	\$ 552	\$ 558
Contributions in relation to the contractually required contribution	\$ 562	\$ 507	\$ 506	\$ 541	\$ 552	\$ 558
Contribution deficiency (excess)	\$	\$	\$	\$	\$	\$
College's covered payroll	\$ 4,634	\$ 4,157	\$ 4,167	\$ 4,582	\$ 4,692	\$ 4,961
Contributions as a percentage of covered payroll	12.13%	12.20%	12.14%	11.81%	11.76%	11.25%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Per GASB 82, which amends GASB 68, covered payroll is defined as the payroll on which contributions to a pension plan are based, also known as pensionable payroll. For fiscal year 2020, covered payroll is for the reporting fiscal year October 1, 2019 through September 30, 2020.

The amount of contractually required contributions is equal to the amount that would be recognized as additions from the College's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the College's fiscal year. For participants in TRS, this includes amounts paid for Accrued Liability, Normal Cost, Term Life Insurance, Pre-Retirement Death Benefit and Administrative Expenses.

***Schedule of the College's Proportionate Share of the Collective Net
Other Postemployment Benefits (OPEB) Liability
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2020
(Dollar amounts in thousands)***

	2020	2019	2018
College's proportion of the collective net OPEB liability	0.053330%	0.055455%	0.059800%
College's proportionate share of the collective net OPEB liability (asset)	\$ 2,012	\$ 4,558	\$ 4,442
College's covered-employee payroll during the measurement period (*)	\$ 4,051	\$ 4,269	\$ 4,617
College's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	49.67%	106.77%	96.21%
Plan fiduciary net position as a percentage of the total collective OPEB liability	28.14%	14.81%	15.37%

(*) Per GASB 75, covered-employee payroll is defined as the payroll of employees that are provided with OPEB through the OPEB plan. The covered-employee payroll for this RSI Schedule (GASB 75 paragraph 97) is for the reporting period (i.e. the measurement period), which for the September 30, 2020 year is October 1, 2018 through September 30, 2019.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of the College's Contributions - Other Postemployment Benefits (OPEB)
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2020
(Dollar amounts in thousands)

	2020	2019	2018
Contractually required contribution	\$ 88	\$ 151	\$ 134
Contributions in relation to the contractually required contribution	\$ 88	\$ 151	\$ 134
Contribution deficiency (excess)	\$	\$	\$
College's covered-employee payroll	\$ 4,124	\$ 4,051	\$ 4,269
Contributions as a percentage of covered-employee payroll	2.1339%	3.7275%	3.1389%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information for Other Postemployment Benefits (OPEB) For the Year Ended September 30, 2020

Changes in Actuarial Assumptions

In 2019, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to more closely reflect actual experience.

In 2016, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

Recent Plan Changes

Beginning in plan year 2021, the MAPD plan premium rates exclude the ACA Health Insurer Fee which was repealed on December 20, 2019.

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the MAPD plan.

The Health Plan is changed each year to reflect the ACA maximum annual out-of-pocket amounts.

***Notes to Required Supplementary Information
for Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 2020***

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Therefore, the actuarially determined employer contribution for fiscal year ending September 30, 2019 is determined based on the actuarial valuation as of September 30, 2016. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.875%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.75%
Medicare Eligible	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2022 for Pre-Medicare Eligible 2018 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2020***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Identifying Number	Pass-Through To Subrecipients	Total Federal Expenditures
<u>Student Financial Assistance Cluster</u>				
<u>U. S. Department of Education</u>				
<u>Direct Programs</u>				
Federal Supplemental Educational Opportunity Grants	84.007			\$ 41,250.00
Federal Work-Study Program	84.033			35,501.40
Federal Pell Grant Program	84.063			2,298,258.59
Total Student Financial Assistance Cluster				<u>2,375,009.99</u>
<u>Research and Development Cluster</u>				
<u>U. S. Department of Education</u>				
<u>Direct Program</u>				
Higher Education - Institutional Aid	84.031			1,660,621.20
<u>WIOA Cluster</u>				
<u>U. S. Department of Labor</u>				
<u>Passed Through Alabama Department of Commerce</u>				
WIOA Adult Program	17.258	N.A.		28,434.60
WIOA Dislocated Worker Formula Grants	17.278	N.A.		28,053.71
Total WIOA Cluster				<u>56,488.31</u>
<u>TRIO Cluster</u>				
<u>U. S. Department of Education</u>				
<u>Direct Program</u>				
TRIO - Student Support Services	84.042			294,856.76
<u>Other Federal Awards</u>				
<u>U. S. Department of Education</u>				
<u>Direct Programs</u>				
Higher Education Emergency Relief Fund (HEERF) Student Aid Portion	84.425E			348,800.00
HEERF Institutional Portion	84.425F			54,744.61
HEERF Historically Black Colleges and Universities (HBCUs)	84.425J			195,836.68
Total Higher Education Emergency Relief Fund (HEERF)				<u>599,381.29</u>
<u>Passed Through Alabama Community College System</u>				
Adult Education - Basic Grants to States	84.002	0920AE110		106,471.30
<u>Passed Through Alabama Department of Education</u>				
Career and Technical Education - Basic Grants to States	84.048	V048A190001		\$ 169,684.46

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2020

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Identifying Number	Pass-Through To Subrecipients	Total Federal Expenditures
<u>National Science Foundation</u>				
<u>Direct Program</u>				
Education and Human Resources	47.076			\$ 25,623.56
<u>U. S. Department of Treasury</u>				
<u>Passed Through State of Alabama, Department of Finance</u>				
Coronavirus Relief Fund	21.019	20GEERFHLTHDRK01		<u>235,604.34</u>
Total Expenditures of Federal Awards				<u>\$ 5,523,741.21</u>

N.A. = Not Available/Not Applicable

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2020

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of J. F. Drake State Community and Technical College, under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***. Because the Schedule presents only a selected portion of the operations of J. F. Drake State Community and Technical College, it is not intended to and does not present the financial position, changes in net position, or cash flows of J. F. Drake State Community and Technical College.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Indirect Cost Rate

J. F. Drake State Community and Technical College has elected not to use the 10-percent de minimis indirect cost rate allowed under the *Uniform Guidance*.

Additional Information

College Officials
October 1, 2019 through September 30, 2020

Officials	Position
Jimmy Baker	Chancellor Alabama Community College System
Dr. Patricia Sims	President
Akeem Alexander	Director of Fiscal Affairs

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditor's Report

Jimmy Baker, Chancellor – Alabama Community College System
Dr. Patricia Sims, President – J. F. Drake State Community and Technical College
Huntsville, Alabama 35811

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States, the financial statements of J. F. Drake State Community and Technical College, a component unit of the State of Alabama, as of and for the year ended September 30, 2020, and related notes to the financial statements, which collectively comprise J. F. Drake State Community and Technical College's basic financial statements and have issued our report thereon dated June 22, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered J. F. Drake State Community and Technical College's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of J. F. Drake State Community and Technical College's internal control. Accordingly, we do not express an opinion on the effectiveness of J. F. Drake State Community and Technical College's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

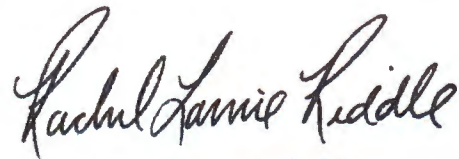
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Compliance and Other Matters

As part of obtaining reasonable assurance about whether J. F. Drake State Community and Technical College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

June 22, 2021

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

Jimmy Baker, Chancellor – Alabama Community College System
Dr. Patricia Sims, President – J. F. Drake State Community and Technical College
Huntsville, Alabama 35811

Report on Compliance for Each Major Federal Program

We have audited J. F. Drake State Community and Technical College's, a component unit of the State of Alabama, compliance with the types of compliance requirements described in the **OMB Compliance Supplement** that could have a direct and material effect on each of J. F. Drake State Community and Technical College's major federal programs for the year ended September 30, 2020. J. F. Drake State Community and Technical College's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of J. F. Drake State Community and Technical College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. **Code of Federal Regulations** Part 200, **Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards** (*Uniform Guidance*). Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about J. F. Drake State Community and Technical College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of J. F. Drake State Community and Technical College's compliance.

Basis for Qualified Opinion on Higher Education Emergency Relief Fund (HEERF)

As described in the accompanying Schedule of Findings and Questioned Costs, J. F. Drake State Community and Technical College did not comply with the requirements regarding CFDA 84.425 Higher Education Emergency Relief Fund (HEERF) as described in Finding 2020-001 for Procurement. Compliance with such requirements is necessary, in our opinion, for J. F. Drake State Community and Technical College to comply with the requirements applicable to that program.

Qualified Opinion on Higher Education Emergency Relief Fund (HEERF)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, J. F. Drake State Community and Technical College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Higher Education Emergency Relief Fund (HEERF) for the year ended September 30, 2020.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, J. F. Drake State Community and Technical College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Examiner's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended September 30, 2020.

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Report on Internal Control Over Compliance

Management of J. F. Drake State Community and Technical College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered J. F. Drake State Community and Technical College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of J. F. Drake State Community and Technical College's internal control over compliance.

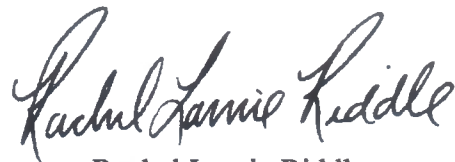
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as Finding 2020-001, that we consider a material weakness.

***Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance***

J. F. Drake Community and Technical College's response to the internal control over compliance finding identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. J. F. Drake Community and Technical College's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing on internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.



Rachel Laurie Riddle
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

June 22, 2021

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2020

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Significant deficiency(ies) identified?	_____ Yes <u> X </u> None reported
Noncompliance material to financial statements noted?	_____ Yes <u> X </u> No

Federal Awards

Internal control over major federal programs:	
Material weakness(es) identified?	<u> X </u> Yes _____ No
Significant deficiency(ies) identified?	_____ Yes <u> X </u> None reported
Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified for Higher Education- Institutional Aid</u> <u>Qualified for Higher Education Emergency Relief Fund (HEERF)</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the <i>Uniform Guidance</i> ?	<u> X </u> Yes _____ No

Identification of major federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.031	<u>Research and Development Cluster</u> Higher Education – Institutional Aid <u>Higher Education Emergency Relief Fund (HEERF)</u>
84.425E	Higher Education Emergency Relief Fund (HEERF) Student Aid Portion
84.425F	HEERF Institutional Portion
84.425J	HEERF Historically Black Colleges and Universities (HBCUs)

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2020

Section I – Summary of Examiner's Results

Dollar threshold used to distinguish between
Type A and Type B programs: \$750,000.00

Auditee qualified as low-risk auditee? X Yes No

Section II – Financial Statement Findings (GAGAS)

No matters were reportable.

Section III – Federal Awards Findings and Questioned Costs

Reference Number: 2020-001
Compliance Requirement: Procurement and Suspension/Debarment
Type of Finding: Internal Control
Internal Control Impact: Material Weakness
Compliance Impact: Material Noncompliance

CFDA Number(s) and Title: 84.425J – HEERF Historically Black Colleges and Universities (HBCUs)
Federal Awarding Agency: U. S. Department of Education
Federal Award Number: P425J200023
Pass-through Entity: None
Pass-through Award Number: None

The College failed to obtain multiple price quotes for purchases made with federal funds in amounts between the micro-purchase threshold (\$10,000) and the Alabama Competitive Bid Law threshold (\$15,000).

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2020

Section III – Federal Awards Findings and Questioned Costs

Finding

Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, codifies the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Section 200.320 describes the methods of procurement to be followed. This guidance includes procedures for small purchases. Small purchases are purchases higher than the micro-purchase threshold but not exceeding the simplified acquisition threshold. During the 2020 fiscal year, the thresholds were \$10,000 and \$250,000, respectively. When small purchase procedures are used, price or rate quotations should be obtained from an adequate number of sources. However, Section 200.318(a) stated, “The Non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part.” The *Code of Alabama 1975*, Section 41-16-50(a) states, “With the exception of contracts for public works whose competitive bidding requirements are governed exclusively by Title 39, all expenditure of funds of whatever nature for labor, services, work, or for the purchase of materials, equipment, supplies, or other personal property involving fifteen thousand dollars (\$15,000) or more, and the lease of materials, equipment, supplies, or other personal property where the lessee is, or becomes legally and contractually, bound under the terms of the lease, to pay a total amount of fifteen thousand dollars (\$15,000) or more...shall be made under contractual agreement entered into by free and open competitive bidding, on sealed bids, to the lowest responsible bidder...” Since the College must also comply with state law, small purchase procedures can only be used for purchases between the micro-purchase threshold (\$10,000) and the threshold set by the Alabama Competitive Bid Law (\$15,000).

2 CFR Section 200.320(f) stated, “Procurement by non-competitive proposals is procurement through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply: (1) The item is available only from a single source; (2) The public exigency or emergency for the requirement will not permit a delay resulting from publicizing a competitive solicitation; (3) The Federal awarding agency or pass-through entity expressly authorizes a noncompetitive procurement in response to a written request from the non-Federal entity; or (4) After solicitation of a number of sources, competition is determined inadequate.”

Section 200.318(i) stated, “The Non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.”

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2020

Section III – Federal Awards Findings and Questioned Costs

Finding Continued

Due to a lack of properly implemented internal controls and staff having limited knowledge of the *Uniform Guidance* requirements, the College awarded three contracts, between the amounts of \$10,000 and \$15,000, during the fiscal year without obtaining price or rate quotations from an adequate amount of sources. In addition, if these purchases qualified for a non-competitive award, the procurement history was not documented. These purchases totaled \$33,135.00.

Recommendation

The College should implement internal controls and educate staff on the *Uniform Guidance* requirements related to procurement transactions.

Views of Responsible Officials of the Auditee

Management agrees with this finding and will take corrective actions.

Auditee Response/Corrective Action Plan



Response/Corrective Action Plan
For the Year Ended September 30, 2020

As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511(c), J. F. Drake Community & Technical College prepared and hereby submits the following Corrective Action Plan for the findings included in sections two and three of the Schedule of Findings and Questioned Costs for the year ended September 30, 2020.

Finding

Ref.

No.

Corrective Action Plan Details

Schedule of Findings and Questioned Costs
Section II – Financial Statement Findings (GAGAS)

No matters were reportable.

Section III - Federal Awards Findings and Questioned Costs

Reference Number:	2020-001
Compliance Requirement:	Procurement and Suspension/Debarment
Type of Finding:	Internal Control
Internal Control Impact:	Material Weakness
Compliance Impact:	Material Noncompliance
CFDA Number(s) and Title:	84.425J – HEERF Historically Black Colleges and Universities (HBCUs)
Federal Awarding Agency:	U.S. Department of Education
Federal Award Number:	P425J200023
Pass-through Entity:	None
Pass-through Award Number:	None

The College failed to obtain multiple price quotes for purchases made with federal funds in amounts between the micro-purchase threshold (\$10,000) and the Alabama Competitive Bid Law threshold (\$15,000).

Finding

Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, codifies the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Section 200.320 describes the methods of procurement to be followed. This guidance



J.F. DRAKE STATE

COMMUNITY & TECHNICAL COLLEGE



includes procedures for small purchases. Small purchases are purchases higher than the micro-purchase threshold but not exceeding the simplified acquisition threshold. During the 2020 fiscal year the thresholds were \$10,000 and \$250,000, respectively. When small purchase procedures are used, price or rate quotations should be obtained from an adequate number of sources. However, Section 200.318(a) stated, "The Non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part." The *Code of Alabama 1975*, Section 41-16-50(a) states, "With the exception of contracts for public works whose competitive bidding requirements are governed exclusively by Title 39, all expenditure of funds of whatever nature for labor, services, work, or for the purchase of materials, equipment, supplies, or other personal property involving fifteen thousand dollars (\$15,000) or more, and the lease of materials, equipment, supplies, or other personal property where the lessee is, or becomes legally and contractually, bound under the terms of the lease, to pay a total amount of fifteen thousand dollars (\$15,000) or more...shall be made under contractual agreement entered into by free and open competitive bidding, on sealed bids, to the lowest responsible bidder..." Since the College must also comply with state law, small purchase procedures can only be used for purchases between the micro-purchase threshold (\$10,000) and the threshold set by the Alabama Competitive Bid Law (\$15,000).

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Section 200.318(i) stated, "The Non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price."

Due to a lack of properly implemented internal controls and staff having limited knowledge of the *Uniform Guidance* requirements, the College awarded three contracts, between the amounts of \$10,000 and \$15,000, during the fiscal year without obtaining price or rate quotations from an adequate amount of sources. In addition, if these purchases qualified for a non-competitive award, the procurement history was not documented. These purchases totaled \$33,135.00.

Recommendation

The College should implement internal controls and educate staff on the *Uniform Guidance* requirements related to procurement transactions.

Views of Responsible Officials of the Auditee



J.F. DRAKE STATE
COMMUNITY & TECHNICAL COLLEGE



Management agrees with this finding and will take corrective actions.

Corrective Action Plan

The College has determined the following measures appropriate to prevent any further occurrence of the above finding:

- The College will provide an updated training session for all budget managers and administrative assistances regarding appropriate procurement methods
- The College provide as guidance to follow a decision-tree to be utilized for faculty and staff during the requisition phase.

The contact person for this correction is Director of Fiscal Affairs with September 2021 being the completion date.